



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Pension Fund Fiscal Note 2011 Biennium

<b>Bill #</b>	SB0484	<b>Title:</b>	Adjust retirement dates for new PERS and TRS hires
<b>Primary Sponsor:</b>	Balyeat, Joe	<b>Status:</b>	As Introduced

**Retirement Systems Affected:** ☒ Teachers ☒ Public Employees ☐ Highway Patrol ☐ Police  
☐ Sheriffs ☐ Firefighters ☐ Volunteer Firefighters ☐ Game Wardens ☐ Judges

Check the box if "Yes".

- ☐ Has this legislation been reviewed by the legislative interim committee?  
☒ Has the cost of this legislation been calculated by the system's actuary?  
☒ Does this legislation include full funding for any benefit revisions?

### Teachers Retirement System

	July 1, 2008 Current System	July 1, 2008 With Changes	Increase/ (Decrease)
Present Value of Actuarial Accrued Liability	\$3,953,700,000	\$3,953,700,000	\$0
Present Value of Actuarial Assets	\$3,159,100,000	\$3,159,100,000	\$0
Unfunded Actuarial Accrued Liability (UAAL)	\$794,600,000	\$794,600,000	\$0
Amortization Period (years) of UAAL	31.30	23.70	(7.60)

	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	7.15%	7.15%	7.15%	7.15%	7.15%
Employer Contribution Rate	7.47%	7.47%	7.47%	7.47%	7.47%
State Contribution Rate	2.11%	2.49%	2.49%	2.49%	2.49%
TOTAL Contribution Rate	16.73%	17.11%	17.11%	17.11%	17.11%

**Public Employees Retirement System (PERS)**

	July 1, 2008	July 1, 2009	July 1, 2010	July 1, 2011	July 1, 2012
Employee Contribution Rate	6.900%	6.900%	6.900%	6.900%	6.900%
Employer Contribution Rate (State&UN	7.035%	7.170%	7.170%	7.170%	7.170%
Employer Contribution Rate (Local Govt	6.935%	7.070%	7.070%	7.070%	7.070%
State Contribution Rate (Local Govt)	0.100%	0.100%	0.100%	0.100%	0.100%
Employer Contribution Rate (SD)	6.800%	6.800%	6.800%	6.800%	6.800%
State Contribution Rate (SD)	0.235%	0.370%	0.370%	0.370%	0.370%
TOTAL Contribution Rate	13.935%	14.070%	14.070%	14.070%	14.070%

**Description of fiscal impact:**

The bill increases the age at which a member of the TRS or PERS hired on or after July 1, 2009, is eligible for full retirement benefits to age 65 with a minimum of 5 years of service.

- Current TRS members are eligible for full benefits when they have 25 years of service regardless of age or have attained age 60 with at least 5 years of service.
- Current PERS members are eligible for full benefits when they have 30 years of service regardless of age, have attained age 60 with at least 5 years of service, or at age 65 regardless of the number of years of service.

Members would still be eligible for reduced early retirement benefits at age 50, with at least 5 years of service.

**FISCAL ANALYSIS****Assumptions:****Teachers Retirement System (TRS)**

1. The estimates in this fiscal note are based on the assumptions, methods, plan provisions, assets and member data used in the July 1, 2008 Actuarial Valuation, including the assumption the TRS will earn 7.75% in FY 2009 and in each ensuing fiscal year. Any investment losses since July 1, 2008, are not included in these estimates. The valuation is available from the Teachers' Retirement System, or at: [www.trs.mt.gov](http://www.trs.mt.gov).
2. There are no changes in benefits for members hired before July 1, 2009; therefore, there is no change to the Actuarial Accrued Liability, the Actuarial Value of Assets, or the Unfunded Actuarial Accrued liability.
3. The amortization period becomes smaller because the normal cost rate for future hires decreases from 10.87% of compensation to 8.45% of compensation and yet contribution rates are assumed to remain the same. Therefore, once new employees are hired on or after July 1, 2009 with less expensive benefits, a larger portion of the future employer contributions to the system can be used to pay for the Unfunded Actuarial Accrued Liability.
4. Assume this is the only benefit change being considered. If other amendments are enacted, the cost estimates in the fiscal note may be different.

**Montana Public Employees Retirement System (MPERA)**

5. These are the only statutory amendments being considered. If other provisions are enacted, the actuarial cost impact associated with these amendments may be different.
6. The estimates in this fiscal note are based on the assumptions, methods, plan provisions, assets and member data used in the June 30, 2008 Actuarial Valuation. The valuation for PERS is available from the Montana Public Employee Retirement Administration, or at: <http://mpera.mt.gov/>.
7. There are no changes in benefits for members hired before July 1, 2009; therefore, there is no change to the Actuarial Accrued Liability, the Actuarial Value of Assets, or the Unfunded Actuarial Accrued liability.

8. The impacts of the investment losses since June 30, 2008 are included in the technical notes.
9. New Entrants after June 30, 2009 would have a Normal Retirement Age of 65.
10. New Entrants after June 30, 2009 would be able to retire as early as age 50, with reductions from age 65 of 6% per year for the first 5 years and 3.6% per year for each additional year.
11. New entrants after June 30, 2009 would retire at the rates currently assumed for members with less than 30 years of service at retirement, since there is no incentive to retire when 30 years of service is reached.
12. In order for the current statutory contribution rates to be sufficient over a 30-year period, the Normal Cost Rate necessary for new entrants was calculated. This indicates that solely revising benefits downward for new members is not a realistic solution by itself.
13. The amortization period becomes smaller because the normal cost rate for future hires decreases from 11.02% of compensation to 9.98% of compensation. Contributions are assumed to remain the same. Therefore, once new employees are hired after July 1, 2009 with less expensive benefits, a larger portion of the future employer contributions to the system can be used to pay for the Unfunded Actuarial Accrued Liability.

### **Long-Term Impacts:**

#### **MPERA**

1. Employers will pay higher salaries for longer periods since employees must work longer and new hires are not taking the place of long-term employees.
2. Due to the potential of increased disability benefits, these costs could offset the positive actuarial impact otherwise realized by the proposed change in retirement age.

### **Technical Notes:**

#### **MPERA**

1. Survivorship benefits are not decreased, resulting in a retirement system member's beneficiary possibly receiving a benefit greater than the member would have received had the member not died prior to age 65.
2. Disability benefits for new members are not decreased, therefore, a potential increase in PERS members filing claims for disability retirement.
3. The higher retirement age may result in the perception that the defined contribution plan would be more desirable than the defined benefit plan. A significant increase in defined contribution participants could adversely impact the funding of the defined benefit plan.
4. The second sentence of Section 1 - Section 19-3-901(1)(a), MCA, conflicts with new 19-3-901(a)(c), MCA. PERB is not certain whether a new member first hired at age 62 could retire at age 65, with only 3 years of service credit, or whether that member would have to become vested prior to being eligible to retire. If the member must be vested, he or she would need to work until age 67.
5. Based on the actuarial value of assets for PERS as of June 30, 2008, the amortization period was 24.8 years; including the market losses through December 31, 2008, the amortization period would be 54.3 years; and including the impact of SB 484 the amortization period would be 34.4 years.
6. Based on the market value of assets for PERS as of June 30, 2008, the amortization period was 50.2 years; including the losses through December 31, 2008, the liability does not amortize; and including the impact of SB 484, the liability does not amortize.
7. Including the losses through December 31, 2008 and the impact of SB 484, the employer contribution rate would need to be increased by 0.30% in order for PERS to be funded within 30 years.

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*Sponsor's Initials*

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*Date*

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*Budget Director's Initials*

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